



## **Organizing the Accounting Profession: A Theoretical And Historical Examination of The Development of Major Accountancy Bodies in The UK**

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### **Abstract**

The study seeks to examine the topic - Organizing the Profession: A Theoretical and Historical Examination of the Development of the Major Accountancy Bodies in the United Kingdom (UK). In advancing the 'professionalizing' claims, the UK accountancy bodies emphasize that their members have command of practical and theoretical culture, engage in ethical conduct, serve the public interest and act in a socially responsible way. However, such claims are routinely problematized by scandals which highlight the highly partisan role of accounting and accountants and failures of accounting education. Rather than undertaking a radical review of accounting education, the professional bodies seek to rebuild confidence in accounting and their jurisdictions by (re)affirming that accounting education is or will be devoted to producing reflective accountants through educational processes focused on sound education, principles, ethics, professional skepticism, lifelong learning opportunities, distinguishing between private and public interest and serving the public interest. These promises presuppose that students on professional accounting courses are exposed to such values. To advance the debate, this paper examines a number of financial accounting, auditing and management accounting books and finds that beyond a technical and instrumental view of accounting, there is little discussion of theories, principles, ethics, public interest, globalization, scandals or social responsibility to produce socially reflective accountants.

**Keywords:** Scandals, Professional Accountancy, Ethics, Social, Responsibility, Public Interest.

### **1. Introduction**

The accountancy profession is nearly one hundred and fifty years old. Formally organized in Scotland in the mid 1850s, it has expanded rapidly worldwide to become one of the leading professions in terms of the number of people it employs, the quantity and variety of services it offers and renders, the size and pervasiveness of its public firms, the extent of its provision and use of educational and research resources, the degree of influence it has in its relations with the state, and the social status and economic rewards enjoyed by its members. Yet, it still must cope with persistent and seemingly intractable problems such as the dubious meaning of reported accounting

figures, inconsistencies in accounting rules, learning orientated solely to training for current practice, a lack of research influence on practice, and managing the ethical behaviour of practitioners.

Given this natural curiosity about 'beginnings,' what is most surprising with respect to the Kedslie text is that it represents one of a very few scholarly studies of the Scottish origins of the modern accountancy profession. One of the earliest and often-quoted texts is that of Brown [1905], a leading Scottish chartered accountant at the beginning of this century, who wrote very generally of the origins of the profession in Scotland, the establishment of the first societies, the first chartered accountants, and the work and problems of these early professionals [pp. 181-231 and 314-42]. Pre-professional accounting in Scotland is covered in a detailed study by Mephram [1988] of eighteenth century accounting and accountants, the main feature of which is the considerable intellectual capacity of the men behind the accounting ideas which were part of the Scottish Enlightenment [pp. 381-3].

Post-professionalization in the United Kingdom has also been studied by accounting historians, and in a number of ways. First, there is an anonymous general history of the early development to 1954 of the main Scottish professional body, described within a context of accounting activities and leading Scottish accountants of the period [ICAS, 1954/1984]. Second, Stewart [1977/1986] produced a historical review of UK's professional beginnings in accounting in the form of a series of brief biographical sketches of the original Scottish chartered accountants to 1879. Third, Winsbury [1977] has written a history of a leading international public accountancy firm which originated in Scotland. Fourth, Lee [1984] has edited a book of papers which were delivered over a seventy-year period to Scottish accounting student societies by leading accountants, revealing the type of persistent issues which were brought to the attention of Scottish accounting practitioners and their apprentices over several decades. Fifth, Walker [1988] recently wrote an extensive empirically-based social history of recruitment to the earliest Scottish accountancy body, with specific references to the social mobility of the recruits.

In the light of the above background this paper is aimed at examining the Organisation of the Accountancy Profession with a theoretical and historical review of the development of the major Accountancy Bodies in the United Kingdom. The following specific objectives shall be achieved in this study:

- (a) to explore the theoretical and historical growth of the accountancy profession in the UK
- (b) to examine the development of accountancy Profession in the United Kingdom and
- (c) to identify the key professional accountancy bodies in the United Kingdom

Accordingly, the following research questions have been raised in this study for discussions:

- (i) What are the theoretical and historical perspectives of the accountancy profession in the UK?
- (ii) How has the development of accountancy Profession in the United Kingdom been evolved?
- (iii) What are the key professional accountancy bodies in the United Kingdom?

## **2. Theoretical and Historical Perspectives of the Accountancy Profession in the UK**

A study of the early Scottish accountancy profession must be seen in the context of several recent pleas for more and better knowledge of the origins of accounting generally, and the accountancy profession particularly. The particular motivations behind these urgings are the need to understand the role of accounting and accountants within the context of significant organizational and societal change; not to study these phenomena as if they were static and neutral; and, more specifically, to observe accounting (and presumably the accountant) becoming what they were not [see Burchell et al., 1980; Willmott, 1986; and Hopwood, 1987]. Kedslie's text is compatible with these ambitions for the study of accounting history, although it is not necessarily faithful to them all and at all times. The purpose of this review is to identify the compatibilities and incompatibilities between Kedslie's thesis and prior historical prescriptions, remembering the warning of Carr [1987, p. 22] that history is not just about facts; it is also about the historian, and the problem he or she has in separating fact from interpretation, and the unique from the general. It is also perhaps relevant to note the view of Collingwood [1974, p. 37] that the proper task of historians is to penetrate the minds of those persons they seek to study historically. Each of these points will be touched on at appropriate parts of this review. But, first, a summary of Kedslie's thesis with, where relevant, comparisons to that of Walker. Kedslie's study is of the origins and events surrounding the formation of three Scottish professional accountancy bodies in the mid 1850s (chronologically, in Edinburgh, Glasgow and Aberdeen). What is fascinating about these developments is not the formations themselves, but why they took place in Scotland at that time. Kedslie's careful research has provided some interesting answers, and she has managed to present them (both in her book and related paper) in a way that is accessible not just to the accounting historian, but also to the practitioner and the student of accounting. Indeed, her study provides a data base for further research as much as definitive conclusions on the issues concerned. In this respect, and as will be explained later in this review, arguably its main weakness is its failure to use such a data base to support or reject hypotheses which could be specified with respect to familiar models of professional behavior.

Kedslie's study begins with an examination of the accounting and accounting-related activities with which identifiable accountants were involved prior to Professionalization in Scotland. She reveals evidence of these accountants as connected in a variety of ways, and to different degrees, with such businesses as canals and railways [pp. 15-28]; banking, insurance and stockbroking [pp. 28-39]; and, most particularly, bankruptcy [pp. 39-54 and 114-34]. In general, Kedslie discovered from data gathered from directories, court records, and other relevant sources, there were significant differences in pre-professional activities in the three geographical locations researched, depending on the nature and preponderance of different businesses in different regions. For example, Edinburgh was a legal and financial center, whereas Glasgow had an industrial and stockbroking focus. These inevitably led to the founding fathers of chartered accountancy in Scotland having different social backgrounds, and being involved and specializing in different accounting and related activities depending on the city in which they did business. For example, Edinburgh accountants entering the new profession were more likely to have family connections with the legal or financial communities than were their colleagues in Glasgow [p. 82]. At least within the context of Edinburgh, these findings are consistent with those of Walker [1988, p. 265].

One thing above all others is clear from Kedslie's thesis. Pre-professionalization, accountants as a social grouping were significantly involved in bankruptcy work and this was the principal factor leading to the formation of the three Scottish professional bodies [pp. 50-77 and 114-34]. Indeed, a

threat of change in bankruptcy law at the time, which would have led to lawyers rather than accountants undertaking such work, was the indisputable catalyst for action to form the Edinburgh body [p. 59], and then the Glasgow and Aberdeen bodies. In the end, the legal change did not take place, but it was sufficient to create the beginnings of modern professional accountancy. Involvement in bankruptcy and related legal work continued to be a major source of business for the early Scottish chartered accountants, to the point that they appear to have established a near-monopoly of such activity during the decades following the founding of the three professional bodies — that is, until a decline at the end of the nineteenth century [p. 134]. Indeed, Walker [1988, p. 34-40] provides data in the Edinburgh context from which a similar conclusion can be drawn. The main change in the mix of business appears to have been to company auditing — for example, in relation to Scottish banks [Kedslie, 1990, p. 145] and railway companies [Kedslie, 1990, p. 166]. Walker [1988, p. 40] confirms this trend with more general corporate data.

In other words, these early accounting professionals were predominantly members of an elite grouping in their communities prior to entry to membership of their professional bodies, and later members tended to come from reasonably similar backgrounds — with some differences over time and between bodies. Coming together at this time in such an organised way is a clear signal of some form of self-protection involving economic employment and social status. Kedslie reveals the several post-professionalization actions of Scottish chartered accountants which evidence such self-protection. Interestingly, despite differences in the composition and background of members of the three bodies, this evidence reveals unanimity of attitude and purpose over the issues concerned. The first matter centers on the expansion and then decline in the second half of the nineteenth century in the involvement of Scottish chartered accountants in legally-driven work such as bankruptcies, and a compensating expansion of their involvement in other areas in which they had previous connections (such as auditing banks, insurance companies and railways [Kedslie, 1990, pp. 114-34 and 135-71]. Kedslie clearly reveals the adaptability and success of the early chartered accountants in capturing significant areas of accounting-related activity — to the point at which they occupied a near-monopoly position (as in the audit of railways) [p. 71].

The value of Kedslie's work is in its provision of a "quilt" of related topics which, when gathered together, give the reader a sense of how the Scottish bodies came into being in the mid 1850s, and then proceeded to restrict their membership and capture specific work for their members. In this respect, however, the quilt tends to lack a pattern which would help explain why these developments took place when and where they did. In other words, there is little or no specification of a general model or individual hypotheses of professional behavior with which to relate the data and derive explanatory conclusions of the type desired by writers such as Burchell et al. [1980], Willmott [1986] and Hopwood [1987]. Kedslie [1990, pp. 262-74] does attempt briefly at the end of her book to provide such a scenario — in the sense that she discusses various views of the attributes of a profession and its members. These include such well-known writers on the subject as Carr-Saunders and Wilson [1933] and Hall [1969].

Such a conclusion is logical and necessary in such a historical study. However, it limits the latter in its potential to explain the rationale of the professional accountancy body and its Scottish origins. Kedslie provides considerable data to make such a case. She fails to take the opportunity — despite having access to several authorities which could have assisted her. For example, she refers to Carr-Saunders and Wilson [1933] in terms of professional characteristics, but does not present this study as an example of the functionalist approach to the study of professionalism. This is the view that

the professional exists to provide a functional service within the public domain, and that his actions are primarily guided by altruism — of putting service to the public before economic or social self-interest. Kedsle [1990, p. 262] also makes brief and incidental reference to Larson [1977], a principal advocate of the alternative critical school of professionalism — but without mentioning his model of the professional as a person seeking market control over needed services and upward social mobility by a process of public legitimation of his actions.

Putting these ideas in the context of professional accountancy, Kedsle could have hypothesized that the early Scottish professional accountants acted in a concerted way to monopolize a body of knowledge or competence which they could exclusively practice; created an atmosphere of dependency for such services by pointing out the need for altruistically-driven superior abilities to successfully remove observable uncertainties to maintain the public interest; and reinforced such superiority by explicit signs of elitism and status. The evidence provided by Kedsle is certainly consistent with this model. For example, attempting to achieve professional monopoly in the areas of bankruptcies [pp. 50-77 and 114-34] and company audits [pp. 135-71]; involving a need for skilled professionals to deal with complex issues in bankruptcies and audits [p. 57, 62, 75, 141-2, 156, 160-1 and 168]; creating an image of elitism and status in terms of specific entry standards including apprenticeships, entry and membership fees, and education and examination [pp. 188-217]; and using the idea of the public interest to exclude other bodies from the domain of public accounting [pp. 218-39], protect the title of chartered accountant [pp. 239-49], and attempt to register only chartered accountants [pp. 249-61].

### **Development of Accountancy Profession in the United Kingdom**

"Four aspects of the nineteenth century British economy were particularly important for the development of accountancy: the growth of large-scale organizations and, in particular, of the railways, company legislation, the high rate of insolvencies, and the introduction of income taxation" (Parker, 1986 p.5). The demand for auditing, bankruptcy, costing, and tax services rose due to these issues, and they were supplied by the accountancy profession (Parker, 1986 p.5).

#### **Large-scale Organizations**

Large organizations began to grow during the industrial revolution and the railway industry was a significant part of this growth. The railway construction between 1830 and 1875 produced more than 70% of England's final route mileage (Parker, 1986 p.5). This industry had great economic benefits for accounting. With these larger organizations growing, accountants were needed even more to keep track of the financial situation of these businesses. Clients had more investments and assets to maintain, which made the accountants have higher quality standards. "The big railway companies were pioneers in corporate management at a time when most manufacturing companies were still family firms" (Parker, 1986 p.6). This move from family business to corporate business was a great way for businesses to increase their investment and growth potential by acquiring more cash into the business. The corporate world has always needed accountants to evaluate and manage the business on its activities. Corporations have continually been a huge employer to the accounting profession. Large organizations and corporations must have accountants to survive in the competitive world of business.

### **Company Legislation**

"Accountancy practice in the United Kingdom, unlike the United States, has been greatly influenced by company legislation. The essence of modern company law is that it grants by registration with a government agency the rights of corporate personality, perpetual succession and limited liability" (Parker, 1986 p.8). The South Sea Company took over England's national debt and issued stock in an attempt to make money. This business concept never worked. After the South Sea Company's bubble popped, the result was the Bubble Act of 1720. "It aimed to correct four evils: (1) excessive stock speculation, (2) formation of fraudulent joint stock companies, (3) the use of corporate prerogatives by unincorporated firms, and (4) the use of corporate charters to conduct inappropriate types of business. This act not only denied limited liability status to all firms not incorporated by Crown or Parliament, but was used as a policy instrument to restrain the formation of new corporations" (Chatfield p.81). South Sea Company is an example of how company decisions affect the accounting profession and laws in England.

### **Insolvencies**

Not only did the nineteenth-century British economy have growth but also had crises and insolvencies (Parker, 1986 p.10). Limited liability companies were very prone to insolvency. Between 1856 and 1883, "about one-quarter were dissolved within three years of registration, about one-half within ten years, and almost three-quarters within twenty years" (Parker, 1986 p.10). These high numbers of insolvency led to higher demand for accountants to act as liquidator during this period.

### **Income Taxes**

The development of the income tax added demand to accountants. The British used income tax to finance wars. "An income tax was first introduced in Britain in 1799 to help finance the war against Napoleon" (Parker, 1986 p.11). Since prior to 1799 no one paid income taxes, the common citizen and business all of a sudden needed someone to calculate how much they owed to the government. Accountants were already used for keeping track of businesses financial situation, but now figuring out income taxes made businesses higher more accountants. The income tax was removed after the war ended but reintroduced when war broke out again in 1803. The income tax was withdrawn in 1815 when war ended again. The final re-installment of the income tax was "in 1842 as a temporary measure at a time of nation crisis" (Parker, 1986 p.11). The continuation of the income tax will always create a demand for someone else, an accountant, to figure out the least a person owes to the government.

### **The Accounting Profession in the United Kingdom**

The United Kingdom differs from the United States in the Accounting Profession. The largest accounting organization is the Institute of Chartered Accountant in England and Wales (ICAEW), which was founded in 1880 and at the end of 2002 had 123,719 members (ICAEW.co.uk). Members of the ICAEW are called Charter Accountants. "Applicants for membership must pass the Institute's examinations covering a wide range of subjects and must complete a designated amount of time under a training contract with an authorized training office" (Arthur Andersen & Co., 1987 p.4). The ICAEW members are required to "obtain a minimum credit within a broad range of professional activities (such as audit, tax, company law, and so forth)" for their continuing professional education (Arthur Andersen & Co., 1987 p.5).

The United States version of the ICAEW is the American Institute of Certified Public Accountants (AICPA). The AICPA was formed in 1887 and today has 328,000 members (AICPA.org). The AICPA requires its members to acquire continuing educational credits to stay a member. "United Kingdom chartered accountants often engage in activities that are not customary for a CPA in the United States. For example, the chartered accountant may act as a liquidator, a receiver, or a trustee of a company in bankruptcy" (Arthur Andersen & Co., 1987 p.2). "The Auditing Practices Committee (APC) is a subcommittee of the Consultative Committee of Accountancy Bodies (CCAB), which represents all the major professional public accounting organizations in the United Kingdom" (Arthur Andersen & Co., 1987 p.2).

### **3. Professional Accountancy Bodies in the United Kingdom (UK)**

#### **Association of Chartered Certified Accountants (ACCA)**

##### **Qualification: ACCA qualification**

The ACCA qualification is an established route to professional status, and globally you will be in demand for your finance and accounting knowledge and skills, regardless of employment sector.

ACCA is the largest and fastest growing international accountancy body, with over 424,000 students and 147,000 members in 170 countries. Studying with ACCA allows you to build a future that is diverse, challenging and full of opportunities. There are three equally important elements to qualifying as an ACCA accountant – exams, practical experience and an online ethics module. The exams are progressive, so if you have a degree in history or economics you will build on your knowledge as you progress. If you have a relevant degree you will likely be entitled to some exemptions, and will enter the qualification at the most appropriate level. You will need to complete 14 papers in total. A maximum of nine papers in the Fundamentals level are available for exemption. You have to complete three years' relevant work experience before you can qualify.

#### **The Association of Corporate Treasurers (ACT)**

##### **Qualification: AMCT Diploma in Treasury (AMCT)**

The route to treasury excellence. The Association of Corporate Treasurers (ACT) is the leading professional body for international treasury, providing the widest scope of benchmark qualifications for those working in treasury, risk and corporate finance. We define standards, promote best practice and support continuing professional development. We are the voice of corporate treasury representing the interest of our members. In today's marketplace professional qualifications are extremely important as a benchmark of competency, showing your commitment to the industry and your professional development and performance. ACT qualifications are relevant to a variety of roles including treasury, accountancy, risk, financial management, banking, relationship management and consultancy.

#### **Chartered Accountants Ireland**

##### **Qualification: Chartered accountant qualification (ACA / FCA)**

Chartered Accountants Ireland is Ireland's largest accountancy body with over 20,000 members and 6,000 students. Recognised internationally as Ireland's premier accountancy qualification, Irish Chartered Accountants follow successful careers both at home and in 190 countries.

The wide regard in which our members are held can be attributed to the excellent educational standards to which we adhere, and the structured, supportive nature of our training. As well as passing professional exams, every Irish chartered accountant must gain relevant work experience, and most students will gain this experience through a structured training contract in an accountancy practice. However, since the launch in 2009 of the Elevation Programme, candidates can generate their experience and study up to and including the final exams, outside of a training contract. Elevation candidates can take exams in different sittings or even spread over more than one year. A new blended learning model for elevation students means lectures can be viewed online remotely, either live or recorded, providing excellent revision opportunities.

#### **Chartered Institute of Management Accountants (CIMA)**

##### **Qualification: CIMA Certificate in Business Accounting; CIMA Professional Qualification**

CIMA is the world's largest professional body of management accountants. We have 183,000 members and students in 168 countries. A professional qualification with CIMA is the best preparation for an international career in business. Most accounting qualifications train people for private practice, working on external audit and tax issues. CIMA is different. It's the only accountancy qualification that covers the broader business skills needed to help you break into some exciting industries including fashion, sport, travel, media or publishing. And that's just for starters. Studying CIMA after university is a strong career move. It can enhance your degree and strengthen your employment prospects, and is the natural progression for people with finance and business degrees. If you have already studied a relevant degree or qualification, you may be entitled to exemptions from some exams. You don't however need a relevant degree to start your CIMA studies. Graduates in other disciplines will start by studying the CIMA Certificate in Business Accounting, which will give you a solid grounding to then progress on to the CIMA professional qualification.

#### **The Chartered Institute of Public Finance and Accountancy (CIPFA)**

##### **Qualification: CIPFA professional qualification**

A CIPFA qualification will give you international recognition as an expert in public sector financial management. Chartered public finance accountants (CPFAs) move easily between local government, central government, health, education, housing and all the sectors that make up the public services – the majority of finance directors in local government and the NHS are CIPFA members. They are also valued in accountancy and auditing firms and have the option to move to the private sector if they choose.

On average, CIPFA's professional qualification takes three years to complete (typically two exams twice a year) and comprises three stages designed to work around the practical skills you will acquire in the workplace.

The initial certificate level offers a solid foundation in accountancy practices, which is then built upon at diploma level with a focus on business skills and financial topics in the public services. Then 'the Final Test of Professional Competence' examines your knowledge to date and provides you with further skills to support you in running major projects and large complex organisations.



### **The Chartered Institute of Taxation (CIOT)**

#### **Qualification: Chartered tax adviser qualification (CTA)**

The CIOT is the UK professional body for chartered tax advisers, dedicated to promoting the study and practice of taxation. The institute is a member of the Confédération Fiscale Européenne, the umbrella body for taxation advisers in Europe, and deals with all aspects of direct and indirect taxation. In order to sit the exams candidates need 'confirmation of eligibility', which can be gained in a number of ways including qualifying with another accountancy body or passing the Association of Taxation Technician (ATT) exams.

To become a chartered tax adviser, candidates will need three years' professional experience and to pass four written tax papers and two online e-assessments. Candidates are examined on two specialist tax subjects and must also show an understanding of a broad range of taxes, as well as applying their knowledge to a practical case study. Credits are available for candidates who have passed the examinations of certain other professional bodies prior to sitting the CTA exams. Candidates must be registered with the institute for six months before the exams, which are held in May and November. For those pursuing a career in international tax the CIOT also offers the advanced diploma in international taxation (ADIT).

### **The Institute of Chartered Accountants in England and Wales (ICAEW)**

#### **Qualification: ACA (Associate of the Institute of Chartered Accountants in England and Wales)**

The ACA qualification from ICAEW will give you access to endless career choices. Internationally recognised, the ACA opens doors to all sectors of business. To become an ACA trainee, you need to apply direct to one of our authorised training employers who will support you through your training. A distinctive element of the ACA is the 'training agreement' which details your commitment to studying for the ACA and your employer's support in training you, with work-based skills development playing a large part in your success. Our *Training Vacancies* guide will enable you to search over 2,500 employers offering summer internships, year placements and ACA graduate vacancies throughout the UK and internationally.

The ACA comprises of two stages of exams: the professional and advanced stage. The professional stage consists of six knowledge modules that are online exams focused on the core concepts underpinning accountancy and six application modules that are paper-based exams demonstrating how to build on and use your knowledge in practice. The advanced stage consists of two technical papers and a case study. Graduates with a related business or finance degree may be eligible to claim credits for up to eight modules of the professional stage exams.

### **The Institute of Chartered Accountants of Scotland (ICAS)**

#### **Qualification: Chartered accountant qualification (CA)**

The CA qualification is internationally recognised and respected with CAs working in a diverse range of organisations, from public practice to commerce and industry. ICAS is the only UK institute to both train and examine all of its students and its members have the right to put the letters 'CA' after their name. There are currently over 19,000 world class business professionals who work in the UK and in more than 100 countries around the world.

The CA qualification takes three years to complete and involves a combination of structured work experience, classroom-based study and exams. The exam syllabus contains ten subjects divided into

three stages: the test of competence (TC), entailing the initial acquisition of knowledge; the test of professional skills (TPS), in which students develop their practical skills; and the test of professional expertise (TPE), assessing the judgment and application of knowledge. Through classroom-based study and online learning, students develop all-round business and financial acumen along with problem solving skills. The flexible work-based training, monitored through an achievement log, ensures that every student gains the breadth of practical experience necessary to qualify as a CA

#### **4. Conclusions**

As stated at the beginning of this paper, there is a need to know how professional accountancy came to be what it was not. However, much of this process of investigation and explanation is subject to the constraint of the historian. In this case, Kedsleie has provided much useful material to describe the emergence of professionalism in accountancy in Scotland. What is still required is an interpretive approach to such data to provide explanation and understanding. As she reveals in her preface [Kedsleie, 1990, p. xiii] and conclusion [p. 274], recent events in the history of The Institute of Chartered Accountants of Scotland suggest that the process of Professionalization is a continuing affair which will require further investigation and explanation. Dr. Kedsleie is to be encouraged to continue that process as part of the larger task of understanding the role of professional accounting and public accountants in society.

The United Kingdom has been a major factor in many areas of accountancy. The British were instrumental in the development of accountancy, the accounting profession, and United States accounting. The ICAEW was active in the progress of the accounting profession. Without the British taking an innovative stance to the changing economy, the world of accounting would not be the way it is today.

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